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Dairy and Products

Annual

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Report Highlights:
Industry representatives assess that Romania has the potential to cover the quota negotiated with the EU (3,057,000 MT, to which a "reserve" quota may be added in 2009). This together with rising consumption of dairy products continues to be a driving force for Romania's dairy industry. Romania requested a transitional period until December 31, 2009 for modernizing milk processing installations, and for organizing milk collection and standardization centers in compliance with the EU's structural requirements.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Romania’s milk production in CY2005, as reported by Eurostat, indicates a very slight reduction compared to the previous year. For comparability reasons, as Romania is joining the EU on January 1, 2007 and will be included in the EU consolidated reporting of the USDA, Post is using for this report the EUROSTAT figures rather than the statistics provided by the Ministry of Agriculture. However, in the absence of dairy cattle numbers in EUROSTAT, we used in the following PSD tables the average number of cows in milk given in Romania’s national statistics. Milk for factory use was also decreased from the previous estimate.

The total national reference quantity for milk set for Romania during country’s EU accession negotiations is 3,057,000 MT, of which 1,093,000 MT for deliveries and 1,964,000 MT for direct sales. This, together with the “reserve” quota that might be added in 2009 in order to count for current on-farm consumption, reflects Romania’s projected ability to improve milk collection, cold storage and processing facilities. Currently, Romania is negotiating in Brussels some increase in its milk quota based on the reference fat content (3.59%).

The dairy products market remains one of the most dynamic ones, with annual growth estimated at 5 percent, and the entry of new players into the market who are attracted by Romania’s substantial milk quota.

Increased dairy product consumption (especially cheese and yoghurts) is expected to further contribute to the industry’s expansion in 2007.

Production

While statistics provided by the Romanian Ministry of Agriculture indicate a 2% increase in the cow milk production at the end of 2005 compared to a year earlier (due to the average per head productivity gains), EUROSTAT data for Romania show, on the contrary, a 1% reduction in domestic supplies. For comparability reasons, as Romania is joining the EU on January 1, 2007 and will be included in the EU consolidated reporting of USDA, Post adopted in the present analysis the EUROSTAT figures. In the sections dedicated to other dairy products we have also adopted the methodology indicated for the EU-25.

The amount of ewes’ milk increased from 339,000 MT in 2004 to 376,000 MT in 2005, goat’s milk production also grew from 109,000 MT to 169,000 MT, and buffalo milk reached 311,000 MT at the end of the year (as against 292,000 MT). Partial data for the first 8 months of 2006 (released by the Ministry of Agriculture) indicate -- assuming the 1% reduction in cows in milk inventories -- a very slight decrease in the milk output. With assumed increases in the yield per cow, we anticipate that domestic supplies will be fairly stable this year compared to last year.

Supply is very dispersed (70% of the raw milk coming from households with at most 3 cows), so that milk sanitation and collection continues to be an important constraint to the industry. Apart from quality problems due to the lack of milking and cold storage infrastructure, the raw material flow is strongly affected by seasonality. Although Romania is expected to be able to fulfill its milk quota after country’s EU accession, a number of priorities remain to be addressed, e.g., improvements in feed and forage practices at farm level, introduction of specialized dairy breeds, and advanced techniques for animal husbandry. Industry analysts consider that by 2010 about 65% of domestically processed milk will be supplied by large farms of over 100 cows.

Production, Supply and Demand Table

Romania							
Dairy, Milk, Fluid							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate New]	
Market Year Begin		38353		38718		39083	MM/YYYY
Cows In Milk	1587	1587	1650	1576	0	1580	(1000 HEAD)
Cows Milk Production	5500	4977	5700	4900	0	4950	(1000 MT)
Other Milk Production	390	856	400	900	0	900	(1000 MT)
TOTAL Production	5890	5833	6100	5800	0	5850	(1000 MT)
Intra EC Imports	0	0	0		0	3	(1000 MT)
Total Imports	2	2	2	3	0	1	(1000 MT)
TOTAL Imports	2	2	2	3	0	4	(1000 MT)
TOTAL SUPPLY	5892	5835	6102	5803	0	5854	(1000 MT)
Intra EC Exports	0	0	0	0	0	1	(1000 MT)
Total Exports	0	1	1	1	0	1	(1000 MT)
TOTAL Exports	0	1	1	1	0	2	(1000 MT)
Fluid Use Dom. Consum.	3700	4059	3819	3772	0	3712	(1000 MT)
Factory Use Consum.	1475	1134	1550	1400	0	1500	(1000 MT)
Feed Use Dom. Consum.	717	640	732	630	0	640	(1000 MT)
TOTAL Dom. Consumption	5892	5834	6101	5802	0	5852	(1000 MT)
TOTAL DISTRIBUTION	5892	5835	6102	5803	0	5854	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

The total national reference quantity for milk set for Romania within country's EU accession negotiations is 3,057,000 MT of which 1,093,000 MT for deliveries and 1,964,000 MT for direct sales. This, together with the "Reserve" quota that might add in 2009 in order to count for current on-farm consumption, reflects Romania's potential to improve milk collection, cold storage and processing facilities. Currently, Romania is negotiating in Brussels some increase of its milk quota based on the reference fat content (3.59%).

In August 2005, as part of the pre-EU-accession process, the GOR approved an Ordinance giving individual producers raw milk quotas based on historical figures from the reference period. The first round for gathering information on milk deliveries was April 1, 2005 – March 31, 2006. To determine the amount of milk channeled to industrial processing, the authorities circulated to the dairies a form asking for information on milk deliveries from each supplier. As for direct sales, there was no statistical tracking in the past; estimates were used instead. The process was intended to produce a comprehensive registration of all milk sales other than deliveries to processors.

Data collection continues in the second round of the exercise (April 2006 – March 2007), when farmers who were not recorded in the first round (new farmers) or farmers who expanded their production can also apply for a limited milk quota (between 10,000-2 million KG). The process of registration and individual quota allocation will end in March 2007. After this, those producers whose production exceeds their quota will have to pay high levies for the extra milk delivered. Those farmers who are not granted a quota will be not eligible for commercial sales after accession. Nonetheless, farmers will be able to go on the free market to buy or sell quotas.

The Ministry of Agriculture, Forests and Rural Development decided that all producers, regardless the number of cows they own, are eligible to participate in the EU milk quotas. It is expected that about 600,000 farmers will be recipients of milk quotas. This will represent a real administrative burden, as reportedly up to 400 full time employees would be needed to administer the program properly.

Romania requested a transitional period until December 31, 2009 for modernizing and re-vamping the milk processing plants and for the organizing the milk collection and standardization centers in order to comply with the Community structural requirements. Products from establishments subject to transitional arrangements will not be sold to other Member States and will be clearly identified (labeled).

As of October 2006, there are 59 establishments approved to export to EU (falling under "A" category), while another 188 were expected to be EU compliant by January 1, 2007 (the "B" category). In the "C" category, there were 74 dairy plants (i.e., expected to meet the EU requirements by the end of 2009). In the "D" category (to be shut down by the date of accession) are 8 operations.

The HACCP system in dairy establishments in Romania was introduced on October 1, 2006 (per Article 14 of Directive 92/46/EEC transposed into the national legislation).

As regards the request for a transitional period relating to raw milk, such milk is channeled only to establishments located in Romania and controlled by the General Veterinary Inspectorate. Non-compliant raw milk and raw milk from non-compliant farms can be delivered for processing only to establishments benefiting from a transitional period.

Industry representatives assess that Romania has the potential to cover the quota negotiated with EU with an average number of 826,200 cows in milk. If after accession the country is not able to fulfill the whole production quota allocated by EU, the unsupplied amount will be lost and the quota diminished accordingly.

Romania requested for the traditional cheese brands Nasal, Bradet, Homorod (smoked cheese) application of the provisions of Decision 97/284/EC.

Please note that in the PSD Table below, domestic butter production for 2005 was adjusted (using EUROSTAT data) to reflect the introduction of converted butter oils into the "butter" category, per the reporting instructions for EU-25.

Production, Supply and Demand Table

Romania							
Dairy, Butter							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01-2005		01-2006		01-2007	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	7	11	9	12	0	12	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)

Total Imports	3	4	3	4	0	4	(1000 MT)
TOTAL Imports	3	4	3	4	0	4	(1000 MT)
TOTAL SUPPLY	10	15	12	16	0	16	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Domestic Consumption	10	15	12	16	0	16	(1000 MT)
TOTAL Use	10	15	12	16	0	16	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	10	15	12	16	0	16	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Similarly, please note that consistent with the reporting methodology for the EU Member States, cheese production reported in the PSD table below excludes fresh cheese and curd, while the significant jump in production is due to the fact that Post uses EUROSTAT data in this table rather than national statistics (employed in the previous years).

Production, Supply and Demand Table

Romania							
Dairy, Cheese							
	2005	**Revised**	**2006**	**Estimate**	**2007**	**Forecast**	**UOM**
	USDA Official [Old]	**Post Estimate[New]**	**USDA Official [Old]**	**Post Estimate[New]**	**USDA Official [Old]**	**Post Estimate[New]**	
Market Year Begin		01-2005		01-2006		01-2007	MM/YYYY
Beginning Stocks	5	0	5	0	5	0	(1000 MT)
Production	28	58	29	60	0	62	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	2	2	3	3	0	3	(1000 MT)
TOTAL Imports	2	2	3	3	0	3	(1000 MT)
TOTAL SUPPLY	35	60	37	63	5	65	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	4	2	4	2	0	4	(1000 MT)
TOTAL Exports	4	2	4	2	0	4	(1000 MT)
Human Dom. Consumption	26	58	28	61	0	61	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	26	58	28	61	0	61	(1000 MT)
TOTAL Use	30	60	32	63	0	65	(1000 MT)
Ending Stocks	5	0	5	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	35	60	37	63	0	65	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Consumption

Milk collection for industrial use is very low, roughly one-forth of the total.

Direct sales of raw, non-pasteurized milk remain very significant, i.e. almost 40% of the total domestic supplies. Another 11 percent of production is used as feed, while the balance accounts for households' own consumption.

The dairy product market remains one of the fastest-growing in the agricultural sector, with a turnover estimated by industry representatives at EURO 800 billion[1]. Large (mostly international) companies have a major presence: Friesland (Dutch, who invested mostly in Transylvania: Satu Mare, Cluj Napoca, Carei, Targu Mures), Danone (French), LaDorna (Swiss), Campina (Dutch, in partnership with Covalact), Albalact Alba Iulia (with its brand Fulga), Hochland (Dutch, with investments in cheese factories in Sovata and Sighisoara) etc, but there are still numerous small companies who sell locally or regionally. In terms of industry concentration, the largest three players have together one-forth of the market turnover.

Romanian milk and dairy product consumption lags Western Europe and is low even in the regional context[2]. Nonetheless, the 5% growth rate of the market in 2005 is one of the highest in Europe. It is certain that country's imminent EU accession will bring important structural changes related to a rapid expansion of the share of processed milk products for consumption at the expense of the non-pasteurized, home-made products, still available in smaller rural markets.

Industry analysts believe that after the first year of Romania's European membership, the amount of milk processed domestically will double, reaching 2 million MT, in parallel with a reduction in so-called "direct sales". If purchasing power growth may normally trigger a 2-3% annual increase in the processed milk product market, the shrinking of the grey and black markets is estimated to result in a 10-15% growth in demand for processed products.

Yogurt

According to a study published by *Ziarul Financiar* in April 2006[3], in volume terms, the domestic market of fresh dairy products is structured as follows: 37% yoghurts, 22% soft cheese and spreads, 16% milk, 14% sour cream, 7% kefir and other sour products, 3% cream cheese, 1% sweet cottage cheese.

Urban demand is increasingly sophisticated, and product diversification which targets certain population segments (e.g., women: low fat, high vitamin and fiber content) is the core of the efforts made by companies to better position themselves on the market. The market for yogurt and other cultured milk products continues to be one of the most dynamic. The market evolved a great deal in the last couple of years; new products are launched continuously, and the presence of multinationals that promote their products through strong brands are real forces for innovation. Probiotic yogurts have an important market share, encouraged by both the main producers and by consumer access to information. The number of consumers who eat yogurt for health benefits is increasing rapidly.

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[1] According to Euromonitor, the Romania dairy market had, between 1998-2004, the highest annual growth rate worldwide (25%).

[2] Consumption of processed dairy products averages 4KG/capita, as against 15-20 KG/capita in Central and Eastern Europe region.

[3] Signed by Dana Ciriperu, 17 April 2006

A relatively recent trend is the preference for yogurts with longer shelf life, a tendency that developed with the hypermarket, supermarket and cash & carry networks. Another noticeable tendency is the decline in market share of plain yogurt, although it still holds the number one spot. Sales of flavored yogurt are rising rapidly.

The yogurt market in Romania is intensely competitive, with 5 important players: Danone, Friesland, Napolact, Campina and Prodlacta. These companies together hold over 80% of the sales in volume and about 87-90% of the value sales.

Yogurt consumption is fairly stable throughout the year, with the notable exceptions of the fasting periods in the Orthodox calendar and during the very hot summer weeks, when consumption drops.

Cheese

Preferred cheeses in Romania are traditional products – cottage cheese, kaskawal (pressed cheese), cream cheese.

A peculiarity of the Romanian market is the preference for “no name” products, sold in bulk, including homemade cheese, especially cottage cheese that can be found in the peasant markets. Unlike for other dairy products for which sales are strongly influenced by advertising, cottage cheese and pressed cheese consumption is not particularly influenced by price or advertising, say industry representatives. For kaskawal and cream cheese, the season starts in autumn and ends in spring, while for feta-type cheese, sales increase once seasonal vegetables are in the markets.

The number of local brands for cheese (categories cottage cheese, cream cheese and soft cheese) was 130 in the year 2005, with sales totaling 233.98 million RON, according to ACNielesen. The greatest number of brands of dairy products is recorded for cottage cheese (101 brands, with a total value of 119,731 mil. RON), followed by cream cheese (16 brands registered 20.146 million RON) and soft cheese (13 brands, with sales of 94.104 million RON)[4].

Dairy companies are forecasting that consumption of white cheese (Feta-like) and pressed (sheep) cheese will steadily grow.

Butter

Butter consumption has increased steadily from 2003, narrowing margarine’s market share. Butter, as a dairy product, is perceived as “natural” and consequently healthier than margarine.

Trade

Currently Romania is a net importer of most dairy processed products. The future import dynamic depends both on the exchange rate and on the pace at which the local dairy industry will be able to move toward meeting the EU quality and safety requirements.

In 2006 Romania continues to import small quantities of raw milk for processing from neighboring countries, but also processed, packed milk. Hungary is by far the largest supplier, followed by Germany, the Czech Republic, Slovakia, and France. Fluid milk imports are expected to exceed 3,000 MT in 2006 (30% higher than in the previous year).

[4] Source: Revista Piata no. 17 / March 2006.

Import Trade Matrix

Country	Romania		
Commodity	Dairy, Milk, Fluid		
Time Period	CY	Units:	MT
Exports for:	2005		**Jan-July 2006**
U.S.	0	U.S.	0
Others		Others	
Hungary	1256	Hungary	1486
Czech Rep.	608	Germany	186
Germany	154	Slovakia	80
France	43	Czech Rep.	44
Bulgaria	34	France	14
Slovakia	20	Bulgaria	12
Total for Others	2115		1822
Others not Listed			
Grand Total	2115		1822

Fluid milk exports are oriented mainly to Greece (especially targeted by La Dorna), but remain low (about 1,000 MT).

Export Trade Matrix

Country	Romania		
Commodity	Dairy, Milk, Fluid		
Time Period	CY	Units:	MT
Imports for:	2005		**Jan-July 2006**
U.S.	0	U.S.	0
Others		Others	
Greece	892	Greece	479
Malta	7	Russia	4
Bahamas	3	Cyprus	2
Cayman Islands	2	Hong Kong	1
Panama	1	Malta	1
Switzerland	1	Jordan	1
Canada	1	Germany	1
Antigua & Barbuda	1	Antigua & Barbuda	1
Thailand	1	Turkey	1
Cyprus	1		
Total for Others	910		491
Others not Listed			
Grand Total	910		491

Trade figures for cheese include from the year 2005, consistent with the EU reporting instructions, just a reduced number of products (0406200000 Cheese, all kinds grated or powdered; 0406300000 Cheese, processed; 0406400000 Cheese, blue-veined; 0406900000 Other Cheese). This change in the methodology impacts significantly on the export figures, which appear to have declined by 50% in 2005 compared to the previous years. This is due to the fact that many of the traditional exports -- curd, fresh cheese (mainly shipped to Greece) -- fall under Harmonized System codes that are not included in the consolidated reporting. Destination for the Romanian cheese products included in this analysis are Germany, US, Lebanon, Italy, Russia, but data for the first 7 months of 2006 indicate a drop in these exports.

Romania's cheese imports in 2005 imports exceeded 2,100 MT and will likely reach 3000 MT by the end of 2006, consisting mainly of special cheeses (different varieties of pressed cheese, Swiss cheese, blue cheese) from the EU, which benefits from a duty-free quota (see Table 1).

Import Trade Matrix

Country	Romania		
Commodity	Dairy, Cheese		
Time Period	CY	Units:	MT
Imports for:	2005		**Jan-July 2006**
U.S.		U.S.	0
Others		Others	
Germany	890	Germany	537
Hungary	298	Poland	299
France	290	Hungary	209
Poland	190	France	161
Czech Rep.	138	Italy	71
Denmark	130	Denamark	65
Italy	107	Netherlands	51
Netherlands	34	Bulgaria	44
Bulgaria	20	Slovakia	43
Austria	4	Czech Rep.	36
Total for Others	2101		1516
Others not Listed	15		39
Grand Total	2116		1555

Export Trade Matrix

Country	Romania		
Commodity	Dairy, Cheese		
Time Period	CY	Units:	MT
Exports for:	2005		**Jan-July 2006**
U.S.	508	U.S.	182
Others		Others	
Germany	582	Italy	170
Lebanon	399	Russia	129
Italy	344	Lebanon	79
Russia	305	Greece	42

Australia	54	Czech rep.	14
Greece	46	Australia	13
Netherlands	40	United Kingdom	3
Malta	1	Bulgaria	1
Georgia	1	France	1
Total for Others	1772		452
Others not Listed	1		1
Grand Total	2281		635

Butter imports have stabilized at roughly 3,000 MT for the past four years, mainly originating from EU countries, under preferential arrangements (Table 1).

Import Trade Matrix

Country	Romania		
Commodity	Dairy, Butter		
Time Period	CY	Units:	MT
Imports for:	2005		**Jan-July 2006**
U.S.		U.S.	
Others		Others	
Czech Rep.	1144	Czech Rep.	1036
Germany	888	Germany	397
France	691	France	354
Netherlands	457	Poland	261
Poland	422	Netherlands	182
Hungary	38	Slovakia	118
Belgium	31	Belgium	60
Slovakia	20	Denmark	13
		Hungary	3
Total for Others	3691		2424
Others not Listed			
Grand Total	3691		2424

Table 1. Import Duties on Selected Dairy Products, 2006

HS Code		WTO bound tariff	MFN duty
0401	Milk and dairy cream, concentrated	248	45
0405	Butter	200	45
0406	Cheese	270	45

Special preferences granted to EU in the pre-accession year are given in Table 2 below:

Special Preferences Granted to EU for Dairy Products in 2006

1.	0402 10 19 0402 21 11 0402 21 19 0402 21 91	Milk and sour cream, in powder or other solid forms	1,500	03.01.2006	exempted	20
2.	0403 10 11 to 0403 10 39 0403 90 11 to 0403 90 69	Yogurt, plain, no sugar or cocoa added Other, plain, no fruit or cocoa added	1,000	03.01.2006	exempted	20
3.	0405 10 0405 90	Butter and other fats derived from milk	1,900 o/w: 950 Sem,I 950 Sem,II	 03.01.2006 03.07.2006	exempted	 20 20
4.	0406	Cheese and curd	3,000 o/w: 1,400 Sem,I 1,600 Sem,II	 03.01.2006 03.07.2006	exempted	 20 20

Prices

Prices for milk in 2005 have followed the multi-annual pattern, strongly rising in winter and falling in summer (see Prices Table). However, during the summer months of 2006 milk price quotes continued to go up, as processors were making efforts to identify new sources of raw material. The additional costs (related to difficult collection and poor transport infrastructure) borne by the processing industry are high, so that the gap between farm-gate raw milk prices and retail prices has diminished lately.

Prices Table

Country Romania

Commodity Dairy, Milk, Fluid

Prices in US$ per uom HL

Year	2005	2006	% Change
Jan	29.2	28.7	-2%
Feb	31.9	30.8	-3%
Mar	21.8	31.6	45%
Apr	23.2	21.9	-6%
May	17.5	25.0	42%
Jun	15.2	28.4	87%
Jul	13.5	29.1	115%
Aug	14.0	25.3	80%
Sep	15.7		-100%
Oct	16.7		-100%
Nov	19.4		-100%
Dec	25.9		-100%

Prices above are at farm gate, no VAT added.
Official monthly exchange rate used in all cases.

Policy

Various support measures for dairy cattle farmers are provided by the GOR via subsidies exempted from the reduction commitment ("Green Box"-type). According to GOR Decision 1853/December 2005, these include measures to help recovery of the livestock sector.

Dairy cows are subject to a payment per head, as follows:

- 200 RON/head at birth, if calf resulted through artificial insemination;
- 100 RON/head at birth if the cow had been conventionally inseminated by a certified bull;
- 200 RON/head after 6 month age of a calf resulted through artificial insemination;
- 100 RON/head for a calf resulted through conventional insemination with a certified bull.

Supplementary payments are to be disbursed for dairy cows in the situations described below:

- 300 RON/head for all cows which are registered with the Official Performance Control Office;
- 100 RON/head for cows registered with the genealogic register;
- 200 RON/head for cows ecologically certified.

Price support for milk is provided in 2006 (as per GOR Decision 1266/2006) in the form of procurement payments to farmers who deliver their production to processors. The amount budgeted is below the *de minimis* level Romania is entitled to according to its WTO commitments.

The unit subsidy for standard cow milk 3.5% fat, sold to processors and which complies with the EU quality standards -- number of germs at maximum 100,000/ml and somatic cells at maximum 400,000/ml -- is 0.3 RON/liter.

The unit subsidy for standard cow milk 3.5% fat, sold to processors and which complies with the standards required by the National Program for Raw Milk Quality Improvement -- number of germs at maximum 1,000,000/ml and somatic cells at maximum 600,000/ml -- is 0.15 RON/liter.